LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

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FISCAL IMPACT STATEMENT

LS 7485 | **NOTE PREPARED:** Jan 16, 2013
BILL NUMBER: HB 1349 | **BILL AMENDED:**

SUBJECT: Personal Property Tax Deduction.

FIRST AUTHOR: Rep. Cherry | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL** **DEDICATED** **FEDERAL** | **IMPACT:** Local

Summary of Legislation: This bill provides an assessed value deduction to offset the effects of the 30% minimum personal property tax depreciation floor for depreciable personal property or utility distributable property for property newly acquired or installed after the 2013 assessment date.

Effective Date: July 1, 2013.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: *Summary:* The total amount of deductions under this bill would be moderate in the beginning but would grow over time as taxpayers continue to acquire new assets and as those new assets depreciate. The total amount of the deductions when fully utilized is not known but could be significant.

Example of Maximum Possible Future Impact: If a similar deduction were allowed for all assets that are currently below the 30% floor, the total deduction would be about $11 B. The tax shift to other property would be an estimated $99 M, and the revenue lost to circuit breakers would amount to $224 M. The actual long-term maximum fiscal impact of this bill would most likely be something less than this example because it is predicated on all older property eventually being retired and replaced with property purchased after March 1, 2013, assuming no change in current investment trends.

Depending on an asset's depreciation life, the true tax value percentage (TTV%) in the depreciation schedule for business personal property first dips below 30% in either the 4th, 5th, 7th, or 8th year of assessment. So, the earliest that the deductions under this bill would begin to apply for some business personal property is for taxes payable in CY 2018. Depending on the federal depreciation of utility assets, the deduction could begin earlier than CY 2018 for utilities.

Background: The current Department of Local Government Finance (DLGF) personal property assessment rule specifies a depreciation schedule for business personal property. Most taxpayers list the cost of depreciable property in one of four "pools", based on the declared useful life of the property. Each pool has a different set of depreciation rates for each year of age of the property. The cost of the property is multiplied by the appropriate "percent good" factor in the depreciation schedule to produce the true tax value (TTV). The total TTV of all of a taxpayer's depreciable property located in the same taxing district must equal at least 30% of the total cost. This is known as the 30% valuation floor.

Utilities, railroads, and rail cars are assessed under different methods. Assessed value is based on federal depreciated value, with an assessment floor equal to 30% of total cost. The total statewide assessed values of these taxpayers are established, subject to the 30% floor, and then are apportioned to various taxing districts.

Taxpayers who own an integrated steel mill or an oil refinery/petrochemical company may elect to use the Pool #5 depreciation schedule. Personal property taxpayers who use Pool #5 are not subject to the 30% floor and would not receive a deduction under this bill. However, these taxpayers could elect to return to the traditional four-pool depreciation schedule if it becomes advantageous to do so.

State Agencies Affected:

Local Agencies Affected: County auditors; Local civil taxing units and school corporations.

Information Sources: LSA property tax database.

Fiscal Analyst: Bob Sigalow, 317-232-9859.